Alberta
CONSUMER AND
CORPORATE AFFAIRS

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Office of the Minister

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The Honourable Dr. David J. Carter
Office of the Speaker
Legislative Assembly of Alberta

Sir:

I have the honour to submit the annual report prepared by the Chairman of the Alberta Securities Commission for the year ending March 31, 1990.

Respectfully submitted,

Dennis Anderson
Minister

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Office of the Chairman

The Honourable Dennis Anderson
Minister of Consumer and Corporate Affairs

Sir:

I have the honour to submit the annual report of the Alberta Securities Commission for the year ending March 31, 1990.

Respectfully submitted,

R. J. Will
Chairman
Alberta Securities Commission

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Alberta Securities Commission

Annual Report

1989/90

Message of the Chairman of the Board

I am pleased to submit the annual report of the Alberta Securities Commission for the fiscal year ended March 31, 1990.

During this period many significant initiatives were undertaken by the Board, which is the quasi-judicial arm of the Commission, and the Secretariat, its policy making arm. One was the process of examining amendments to the Securities Act and the Franchises Act. We developed legislation that would expand the scope of prohibited insider trading and increase the penalties for insider trading, and adopted new take-over bid and issuer bid rules to harmonize Alberta's Securities Act with other major jurisdictions in Canada. In addition we completed work on the third Principle of Regulation governing the securities activities of investment dealers and brokers owned by financial institutions. It is expected that these principles will come into effect during 1990.

Conflict-of-interest rules governing the activities of related parties registered under the Securities Act were also adopted by the Board and came into effect in April 1989.

Over the year the Secretariat began a major program of rewriting all the educational pamphlets and brochures covering different types of investments and their attributes. This project is to assist investors in Alberta in making informed investment decisions.

During this reporting period, the Board issued a total of 496 orders under various sections of the Securities Act. In addition the Board conducted hearings and rendered decisions on 41 enforcement matters; three of these were under the Franchises Act.

Meetings were conducted on an ongoing basis with members of the Investment Dealers Association, both locally and nationally, to discuss the relationship between investors and the investment firms. These relationship matters include service, communication, advertising and education.

The Alberta Stock Exchange is a vital element in the formation of investment capital and the economic health of Alberta. The Board and the Commission staff have regular meetings with the president and staff of the stock exchange to ensure the viability of our capital markets.

Alberta was an active member of the committee established by the Canadian Securities Administrators (CSA) to develop rules which addressed regulatory concerns arising out of the ownership of securities dealers by financial institutions.

The Secretariat and research staff have also been very involved in developing national policies through memberships on CSA committees dealing with capital markets, advertising, take-over bids and the Macdonald Commission. In response to the Macdonald Commission report on "The Public Expectations of Audits", the CSA Macdonald Commission committee updated and revised National Policy 3.1 - "Change of Auditor", and commenced work on guidelines for audit committees.

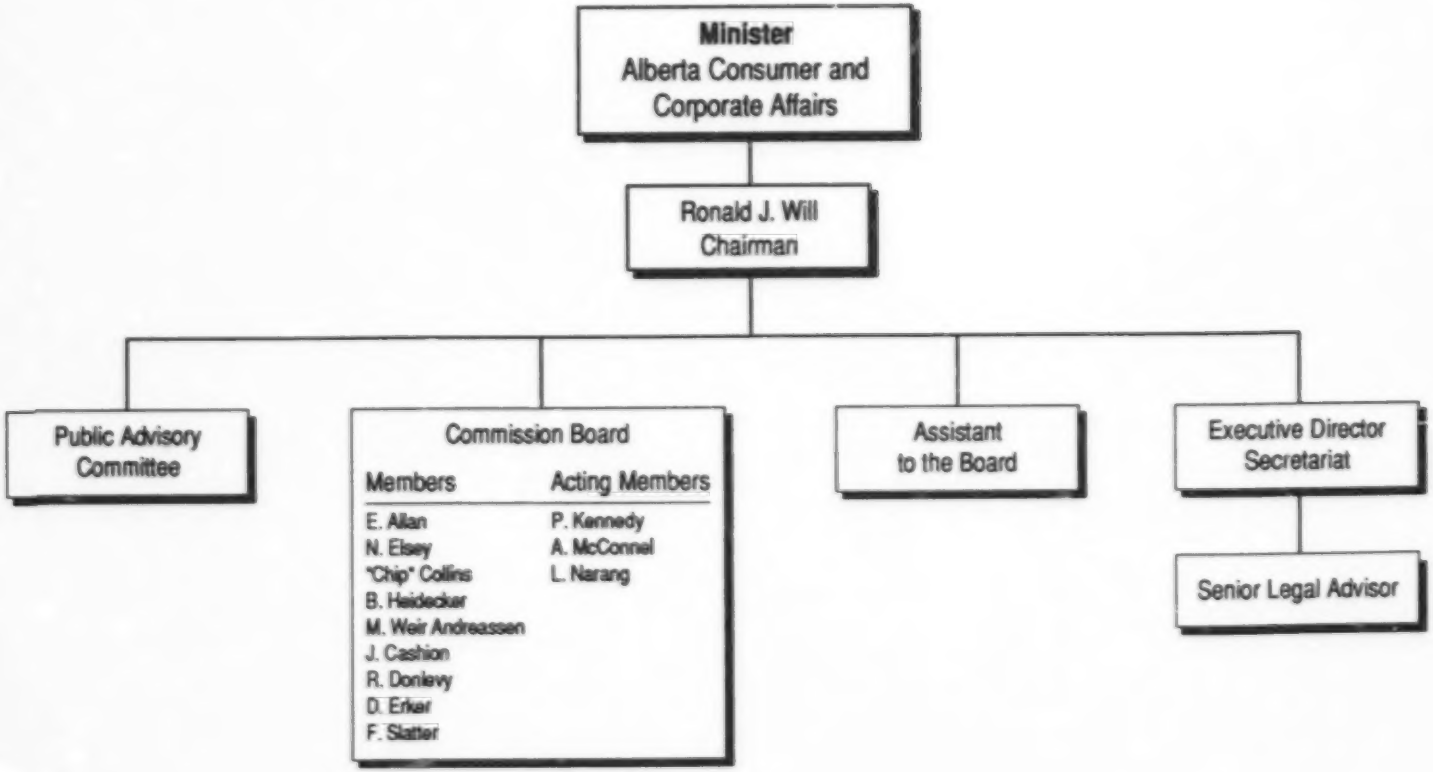
A Secretariat representative also served on the North American Securities Administrators Association franchise committee. This committee is currently working on developing uniform franchise legislation among the American states that currently have, or are proposing to adopt, franchise legislation. Alberta is the only province in Canada that has franchise legislation to protect its investors.

Membership on these committees provides invaluable consultation and exposure to the many issues facing regulators and investors in a financial marketplace characterized by rapid change and increasing complexity and globalization.

It is with a great deal of pleasure that I acknowledge the hard work and accomplishments of the staff of the Alberta Securities Commission in providing the best possible service to Albertans. I also thank the Minister and Deputy Minister of Alberta Consumer and Corporate Affairs for their continuing support.

Ronald J. Will
Chairman of the Board

Organization Chart
Alberta Securities Commission Board



Message of the Chief of Securities Administration

The Alberta Securities Commission Agency has undergone organizational changes and undertaken regulatory initiatives in the past fiscal year to enhance the Agency's ability to fulfill its regulatory mandate in the increasingly complex and global capital markets.

Amendments to the Securities Act:
Amendments to the Securities Act were proclaimed March 29, 1990. Significant amendments included the adoption of uniform take-over bid and issuer bid provisions, which brought Alberta into harmony with the legislation of other major Canadian jurisdictions. Also insider trading rules were strengthened to provide greater deterrence, and improve fairness in the securities market.

CSA and NASAA Involvement:
Increased emphasis has been placed on staff involvement in the work of the Canadian Securities Administrators. The CSA, an association of securities regulators from all provinces, coordinates the development of national policies and fosters information sharing in enforcement matters among members. The Agency also participated in the work of the North American Securities Administrators Association and its committees.

Policy Development:
During the year the Agency contributed to new policy initiatives in cooperation with the Commission Secretariat. The development of a national policy allows issuers to use a shelf prospectus to distribute securities during a succeeding two year period. This will provide senior issuers quicker access to capital markets. To permit uniformity in filing requirements between Ontario and Alberta, the staff developed a blanket order which allows senior issuers the choice of complying with either Alberta Securities Act requirements or Ontario Securities Commission Policy 5.10.

Enforcement Proceedings:
Administrative proceedings and hearings before the Commission Board and court prosecutions remain the most visible and public element of the Agency's activities. The Market Standards branch continues to be active in an increasing number of prominent and complex cases.

Instinet Hearing:
Because of the national implications, an Agency senior lawyer monitored the hearing before the OSC of an application by Instinet Canada Limited for permission to establish a private terminal network for use by institutional investors and members of the Toronto Stock Exchange. After ten days of hearings the OSC decided that the operation of such a network was likely to damage the liquidity of the TSE's market and thereby adversely affect the Ontario capital market.

Computerization:
The focus remains on expanding the application of computer technology in operational areas, such as the Registration and Market Standards branches. It is anticipated that the Registration section will be fully computerized in the next fiscal year.

Public Education:
To inform the public of the activities of the Commission, representatives from both the Agency and the Board provided presentations at several public meetings and seminars. The Agency appreciates the organizational assistance and cooperation provided by the regional offices of Alberta Consumer and Corporate Affairs in these efforts.

Organizational Changes:
Organizational changes implemented during the course of the year included the appointment of a chief accountant. This position, located in Calgary, requires a high level of accounting expertise for the review of financial statements. As well, a deputy director for Securities Analysis was appointed in Edmonton.

Agency staff continue to fulfill the role of the administrative and policing arm of the Alberta Securities Commission. In so doing the Agency accomplishes its mandate of investor protection and ensures the integrity and efficiency of the Alberta capital markets. I want to express my appreciation to all of the Agency staff, whose efforts contribute to the well-being of Alberta investors and the capital markets.

The Agency acknowledges the efforts the Secretariat and the outstanding support of the Minister, the Deputy Minister, and staff of Alberta Consumer and Corporate Affairs.

Robert E. Steen
Chief of Securities Administration

Organization Chart
Alberta Securities Commission Agency

The Mandate, Powers and Structure Of The Alberta Securities Commission

The mandate of the Alberta Securities Commission is to ensure that the securities industry provides adequate investor safeguards and contributes to the development of a fair and efficient capital market in Alberta. There is increasing public interest in the adequacy of the regulation of financial institutions and public companies. The Commission recognizes a public expectation for greater protection and accountability, but is also aware that an over-zealous regulatory environment may stifle legitimate business ventures. Thus, meeting the Commission's mandate requires a high level of skill and professionalism on the part of its staff in balancing investor protection while promoting a viable capital market in Alberta.

The Commission has administrative responsibility for the Securities Act, the Franchises Act, the Deposit Regulations Act and certain provisions of the Alberta Business Corporations Act. The bulk of the Commission's day-to-day activities center around the administration and enforcement of the Securities Act and the Franchises Act. These activities primarily involve:

1. *Registration of persons trading in securities and franchises*
   The Commission ensures that registrants are competent and meet standards of integrity. In addition, dealers must satisfy minimum capital requirements and maintain adequate supervision of their employees.

2. *Review and clearance of offering documents*
   Generally, no person may sell securities or franchises to the public unless an offering document, for example a prospectus, containing full, true and plain disclosure is filed, cleared by the Agency and provided to the purchaser.

3. *Enforcement of the Securities Act and Franchises Act*
   The Agency investigates public complaints and internal referrals of suspected violations of the legislation and, in appropriate cases, initiates administrative proceedings before the Board or recommends prosecution in the courts. The Agency monitors the filing of financial statements, insider trading reports and other continuous disclosure materials required under the acts.

Powers

In fulfilling its mandate, the Commission has the power to:

1. investigate violations of the legislation for which the Commission is responsible;
2. suspend, cancel or impose conditions on registration, or reprimand registrants;
3. grant or deny applications for exemptions from provisions concerning prospectuses, registration, take-over bids or issuer bids;
4. cease trade any security;
5. deny use of exemptions from the prospectus and registration requirements of the Securities Act to individuals or other entities;
6. order funds be frozen or apply for court-appointed receivers;
7. order audits of registrants, reporting issuers, mutual funds custodians and the Alberta Stock Exchange;
8. grant relief from financial reporting requirements;
9. grant relief from security holder meeting requirements;
10. grant relief from proxy solicitation and insider trading reporting requirements;
11. accept an auditor of a reporting issuer; and
12. recognize associations or organizations representing registrants as self-regulatory organizations, and delegate the authority and responsibility to monitor and regulate their members. The Commission retains the power to review any decision made by a self-regulatory organization.

Structure

The Commission is composed of two separate and distinct entities:

1) the Board, and
2) the Agency

The Board

The Board's chief executive officer is the chairman who reports to the Minister of Alberta Consumer and Corporate Affairs.

The Board currently consists of the chairman, who serves full-time, and nine members and three acting members who serve on a part-time basis. The members, who are appointed by the Lieutenant Governor in Council, are drawn from various fields of the general public and include lawyers, accountants and industry professionals.

The Board, convening in panels, meets weekly, alternating between Edmonton and Calgary. The members consider applications for discretionary exemptions from the Securities Act, hear enforcement proceedings under the Securities Act and the Franchises Act and serve as an appeal body, as required. Two members constitute a quorum. In addition, members of the Board meet monthly to discuss and ratify policy issues and future directives.

The Board has appointed an executive director who accepts, on behalf of the Board, documents that are served on or filed with the Board. The executive director also provides the record of proceedings before the Board to the Court of Appeal and carries out the duties assigned to him by the chairman. The executive director ensures that all decisions and orders of the Board are issued and published and that all documents and evidence presented to the Board are properly recorded and stored for further reference.

The executive director also oversees the daily operation of the Secretariat, which is the policy-making arm of the Commission. The Secretariat gathers practical input on policy initiatives from the Agency, and presents proposed legislative and policy initiatives to the Board for its consideration and reaction.

The Agency

The chief of securities administration, as chief executive officer of the Agency, is responsible for the activities and staff of the four operating branches of the Agency: Securities Analysis, Market Standards, Franchises/Registration and Administration, as well as Legal Services. The chief of securities administration reports to the Minister of Alberta Consumer and Corporate Affairs.

The Agency consists of approximately 66 managers, accountants, investigators and support staff. Six lawyers are seconded to the Agency from the department of the Alberta Attorney General.

Securities Analysis Branch

The Securities Analysis branch reviews prospectuses and other offering documents to ensure that the information provided to the public is full, true and plain and is not contrary to the public interest. The responsibility for providing disclosure rests with the issuer and the underwriter. The acceptance of a prospectus or offering document by the branch does not suggest that the merits of the investment have been assessed by the Agency, nor can the regulator guarantee the completeness and accuracy of the prospectus or offering document.

The branch is also responsible for the consideration of delegated applications for exemptions from the Securities Act. As well, the branch, in conjunction with the Legal Services group, reviews and makes recommendations on certain applications for exemptions which are heard by the Board.

Policy development remains an important aspect of the branch's work. Significant policies and blanket orders which were completed in the past year:

ASC Policy 4.12 - The Investment Contract Policy was recommended to and adopted by the Board on March 29, 1990. The development of this policy was achieved through the joint efforts of Alberta Treasury and the Securities Analysis staff. The policy provides guidelines for issuers of investment contracts which previously had been regulated under the Investment Contract Act until its repeal in March of 1990.

In order to enhance and provide uniformity of disclosure between Alberta and other major jurisdictions, branch staff recommended

that a blanket order be granted by the Board which would allow issuers under the Prompt Offering Qualification System to comply with either the Alberta Securities Act requirements or Ontario Securities Commission Policy Statement No. 5.10. The blanket order was issued on February 1, 1990 and is an interim measure to facilitate senior reporting issuers following uniform disclosure rules.

Among the policies that are currently being developed by the branch are:

The Alberta Stock Exchange - Exchange Offering Prospectuses (EOP) program is currently being reviewed by the branch staff and Agency lawyers. This program facilitates the access of junior issuers to the exchange. The review was initiated in accordance with the original order of the Board that requested the EOP program policy be assessed after a two year period. It is anticipated that the review of the program and any amendments to the EOP program will be completed prior to August 31, 1990.

Branch staff is currently reviewing and formulating new rules for future orientated financial information. It is anticipated that amendments to Policy 4.8 Financial Forecasts will be completed within the next fiscal period. It is proposed that the Canadian Institute of Chartered Accountants will be publishing both an accounting standard and an accounting guideline in connection with the amendments to the policy.

There are a number of national policies and international initiatives that are being developed by the branch in conjunction with other members of the Canadian Securities Administrators:

National Policy No. 31 - Change of Auditors is currently being reviewed by the CSA in respect of the role and responsibility of audit committees, reporting requirements dealing with change of auditors and the use of management reports. Branch staff are involved with the CSA in its review and anticipate that amendments to this policy will be initiated in the near future.

Currently a multi-jurisdictional disclosure system is being jointly developed by Canadian and American securities regulators to permit Canadian and American senior issuers to file their domestic

offering documents in the other jurisdictions without a review process. Initially, these offerings will only apply to world-class debt, equity and rights issues and to share exchange take-over bids.

Substantial work has been completed on the development of a national policy statement which will permit issuers to use a shelf prospectus to qualify securities for distribution during a succeeding two-year period. The objective is to permit senior issuers speedier access to the capital markets and provide a system for Canadian issuers similar to the shelf registration system currently in use in the United States.

The branch, in conjunction with other securities administrators across Canada, is developing certain administrative memoranda of understanding to enhance regulation of the securities industry.

The table following sets out the number of offering documents received and processed through the branch during the past year.

Offering Documents Filed

	For The Year Ended March 31, 1990	*For The Year Ended March 31, 1989*
Preliminary Prospectuses, Annual Information Forms and Amendments	514	775
Alberta Stock Savings Plan related Prospectuses	4	17
Renewal Prospectuses	158	151
Exchange Offering Prospectuses	8	24
Junior Capital Pool Prospectuses	7	44
Statement of Material Facts	1	2
Rights Offerings	52	54

During the year, 340 applications for exemption from the requirements of the Securities Act were reviewed and processed. Most of the applications were for extensions from the time limits imposed under the continuous disclosure requirement of the Securities Act. A total of 231 applications for transfer within, or release from, escrow were considered.

Branch staff were seconded to the Franchises and Market Standards branches to help reduce backlog in those areas.

During this fiscal year, the position of chief accountant was created and filled. The chief accountant reports to the branch director and is responsible for assisting all branches in reviewing and analyzing financial information where there are questions on interpretation and application of accounting principles and auditing standards. In addition, the chief accountant initiated a financial statement review program of issuers selected at random. The office of the chief accountant is also responsible for liaising with the Canadian Institute of Chartered Accountants on emerging issues and proposed standards.

Market Standards Branch

The Market Standards branch undertakes educational and preventive policing programs, monitors the securities markets, reviews statutory filings, and conducts investigations into alleged violations of the Securities Act and Franchises Act. As the enforcement arm of the Agency, the branch initiates enforcement procedures, including investigations, administrative proceedings before the chief of securities administration or the Board, and court prosecutions. As well, branch staff work with self-regulating organizations in the securities industry to ensure the integrity of registrants, directors and officers of public corporations.

The branch has undertaken a number of initiatives which have resulted in an increase in enforcement related activities. Investigative resources have been focused on chronic filing and disclosure violations as well as more serious and complex violations such as illegal distributions and market manipulations. During the past year, Board hearings of enforcement matters totalled over 240 hours, an increase of approximately 110 hours over the past fiscal year.

The number of complaints and public inquiries relating to enforcement matters continue to increase. A significant factor contributing to this increase appears to be greater public and industry awareness of enforcement issues. The number of investigations undertaken by staff has increased. An emphasis on investigating serious violations means more extensive investigations. The branch has undertaken several major investigations in the area of stock market manipulation. Enforcement proceedings on those matters are expected in the next fiscal year.

Computerization of the continuous disclosure system has commenced and is expected to be completed during the next fiscal year. This computerization is expected to significantly enhance the branch's monitoring and enforcement capabilities.

Branch staff have been involved in public educational programs and other activities designed to improve our information base and relationships with other regulatory law-enforcement agencies. These include public information seminars, presentations to Alberta Consumer and Corporate Affairs personnel and the police. Staff also encourage regular meetings with enforcement personnel of the Investment Dealers Association and the Alberta Stock Exchange. As well, the branch contributes to Investor Alert and Plain Disclosure bulletins. Members of the branch participate in the securities sub-section of the Canadian Bar Association.

Through the enforcement subcommittees of North American Securities Administrators Association and the Canadian Securities Association, the branch works towards an increased level of contact and cooperation with regulators in other jurisdictions.

Enforcement Activity for Fiscal Year Ended March 31, 1990

Enforcement Prosecutions	*Totals*
Securities Act	22
Franchises Act	3
Board Hearings	
Cease Trade Orders	
Securities Act, s. 21 (interim)	173
Securities Act, s. 165	165
Franchises Act, s. 16	15
Denial of Exemption	
Securities Act, s. 166	85
Files	
Complaints	217
Investigations	340
Active Investigations as of March 31	166

Franchises and Registration Branch

The registrar and director of franchises administers the franchise section and oversees the registration section. The deputy registrar is responsible for the day-to-day operations of the section.

Registration Section

The registration section is responsible for the initial and ongoing registration of companies and individuals carrying on securities activities in Alberta as salespeople, dealers, advisors or underwriters. Through registration the Agency attempts to ensure that industry personnel who deal with the public are trustworthy and knowledgeable. The section is also involved in policy development in areas dealing with such issues as supervision, proficiency standards and conflicts of interest.

The section is also responsible for the issuance of receipts for preliminary and final prospectuses and other offering documents under the Securities Act and the Franchises Act.

The section continues to oversee the registration activities of the self-regulatory organizations. Staff regularly monitor and review those dealers who are not members of self-regulatory organizations. These dealers must meet the financial requirements of the Securities Act and, in most cases, obtain bonding and insurance. They must also establish and follow procedures conforming to prudent business practice for their operations. This monitoring and review serves to ensure compliance with the act, and alerts the Market Standards branch to violations.

During the past year, the Agency commissioned on operational review of the administrative procedures of the section. Recommendations included the installation of computer systems for all information processing activities carried out by the section. It is expected that the enhanced computer systems will be in place by the end of the 1991 fiscal year.

The total number of company applications received during the past year increased by approximately 8% over the previous year, from 216 to 233. The total number of applications made by individuals under both the Securities Act and the Franchises Act decreased by approximately 4% from the previous year, from 2142 to 2061.

Franchise Section

Those who market franchises are required to be registered under the Franchises Act. Companies that sell franchises must file either a prospectus or a statement of material facts, or obtain an exemption from those requirements from the Agency. The franchise section reviews prospectuses and statements of material facts to ensure potential investors are provided with information about a proposed franchise business that enables them to make an informed investment decision.

In the interest of uniformity, the section maintains contact with officials from other jurisdictions who are considering the implementation of franchise legislation. The section also fields questions on franchise matters from government bodies and citizens of other provinces. As well, contact is maintained with other parties such as the Canadian Franchise Association, the Alberta Franchisors' Institute and the Franchisees Association of Alberta. Meetings with the Canadian Franchisors' Association have allowed these representatives to express their concerns about the application of the Franchises Act. As a result, some changes in staff practices have been implemented and certain policies are being developed.

In the past year the section has made progress in reducing the work backlog. The section filled two vacant financial analyst positions and has operated with a full complement of three financial analysts since September, 1989. The additional staff has resulted in a significant decrease in processing times in the section.

During the year the section, together with the Secretariat, developed the following eight policies: Alberta Securities Commission Franchise Policy Statements - General; Notice of Chief of Securities Administration; Applications to the Chief of Securities Administration; Public Availability of Material Filed and Issued under the Franchises Act; Books, Records and Accounts; Administrative Policy; Advertising and Promotional Funds; and Restrictive Covenants. These draft policies have been published for comment and it is anticipated that the policies will be adopted by the Board during the next fiscal year.

During the year, 263 applications were processed by the section, which represents no change in the volume of applications received from the previous fiscal year.

Administration Branch

The Administration branch provides administrative and support services to the Agency. The services include records management, revenue and support.

During the year, there was a significant amount of automation in the records and information area. This automation has linked the Calgary and Edmonton offices allowing staff easy access to the most current information filed with the Agency.

The revenue unit is responsible for the collection of all revenues resulting from legislative requirements and services provided.

The support services unit provides word processing services for the staff. In addition, the Weekly Summary, which contains information on Board and Agency matters of interest to the public, is published and mailed to subscribers.

Branch Statistics

	Fiscal Years Ending March 31		
	1990	*1989*	*1988*
New Client Files Created	1,954	1,104	1,131
Documents Microfilmed	1,107,280	974,151	*1,769,510
Public Viewing of files	855	345	510
Revenue Received	$2,817,000	$2,456,000	$2,442,000
Expenditures	$4,840,000	$4,098,000	$2,723,000

* *Commencement of microfilming*

Calgary Office

The Agency increased its presence in Calgary during the fiscal year.

With the decrease in offering documents filed, the Securities Analysis staff were able to accommodate more prefiling conferences and also assist the chief accountant in financial statement reviews.

The Securities Analysis staff met with the Alberta Stock Exchange and the Investment Dealers Association of Canada to discuss and resolve concerns arising from self regulation.

The Market Standards staff increased their efforts in investigations on market manipulation investigations and met with the RCMP commercial crime unit and Calgary City Police to discuss concerns. Agency resources have been stretched by an increased number of administrative proceedings before the Commission Board and the courts.

During the past year, the Calgary office began providing continuous disclosure service to the public. The number of visitors to the office who wish to review continuous disclosure files has increased.

Legal Services

The Department of the Attorney General continues to supply five permanently seconded, full time lawyers to provide legal services to the Agency. Four are located in Edmonton and one in Calgary. Due to the extra volume of work from the Market Standards branch, an additional lawyer has been located in the Calgary office on a contract basis.

Legal Services is primarily responsible for reviewing and making recommendations to the Agency and Board with respect to applications for exemptions from certain requirements of the Securities Act, the regulation and policy statements. The group also conducts enforcement proceedings before the Board and provides a link to crown prosecutors handling prosecutions in the court under the Securities Act and Franchises Act. In addition, the group provides legal advice on matters of interpretation of legislative, regulatory and policy initiatives.

Applications are reviewed and submitted to the Board with a draft order or resolution and an application summary which includes an Agency recommendation, in accordance with Commission Policy 2.1.

The implementation of National Policy Statement No. 41 - Shareholder Communication has significantly increased the workload of the group. This policy requires reporting issuers and intermediaries to follow specified procedures to ensure that non-registered shareholders receive corporate information and are able to exercise their right to vote. One lawyer from the group has been designated to represent the Agency on the committee dealing with industry implementation and monitoring, and advises the Agency with respect to applications made under the policy. During the fiscal year, 22 waivers and orders relating to the policy were granted.

Legal Services received 422 applications for exemptions from certain requirements of the Securities Act, the regulation or policy statements during the past fiscal year.

The group supervises the legal secondment program, which provides private sector law firms with the opportunity to have a lawyer work at the Agency for a nine or twelve month period. Two lawyers are currently seconded to the Agency for a nine month term each, with half of their time spent in the Securities Analysis branch and the remainder in Legal Services. The recruiting of legal secondees reflects the Agency's efforts in promoting positive working relationships within the legal profession and at the same time supplementing the legal staff of the Agency in a cost effective manner.

Appendix 'A'

Franchises Act

Policy 1.1 Alberta Securities Commission Franchise Policy Statement - General

Policy 1.2 Notice of the Chief of Securities

Policy 2.1 Application to the Chief of Securities Administration

Policy 2.2 Public Availability of Material Filed and Issued under the Franchises Act

Policy 2.3 Books, Records and Accounts

Policy 3.1 Administrative Policy

Policy 4.1 Advertising and Promotional Funds

Policy 4.2 Restrictive Covenants

It is expected these policies will be finalized for the Board's approval in June 1990.

In addition, work is continuing on the following policies:

Policy 4.3 Estimated or Projected Franchise Earnings; and

Policy 4.4 Surety Bonds.

It is expected that the policies will be presented for Board approval by December 1990.